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RUEHGV/USMISSION GENEVA 0382
RUEHVEN/USMISSION USOSCE 2222
RUCNDT/USMISSION USUN NEW YORK 1604
RUEHNO/USMISSION USNATO BRUSSELS BE
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C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 001588

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TAGS: ECON ENRG PREL KG

SUBJECT: KYRGYZ WELCOME REGIONAL ELECTRICITY INITIATIVE

REF: A. DUSHANBE 2019

¶B. BISHKEK 1568

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Classified By: Amb. Marie L. Yovanovitch, Reason 1.4 (b) and (d).

¶1. (C) Summary: During the October 30-31 visit of SCA Senior Advisor Robert Deutsch and SCA RAO Leo Gallagher to Bishkek, Kyrgyz officials expressed support for developing infrastructure to export electricity, reform of the power sector and foreign investment in the Kyrgyz energy sector. However, current legislation limits the private sector's role in the energy sector and ongoing political turmoil may delay the government's evolving reform agenda.

¶2. (C) Summary continued: The national electricity grid operator lobbied for another USTDA-funded feasibility study for a high voltage line linking the Datka substation to Khujand in Tajikistan. The national power generating company, however, lacks the capacity to export significant amounts of electricity during the winter months. Progress on energy reform and the recently signed memorandum with AES on transmission line construction must overcome opposition forces seeking to stymie the government's agenda. End summary.

Meeting the Players in Kyrgyzstan

¶3. (U) During meetings held October 30-31 in Bishkek, SCA Senior Advisor Robert Deutsch and SCA Regional Affairs Officer Leo Gallagher conferred with representatives from the President's Economic Policy Department; the Prime Minister's office; Parliament; the Ministry of Industry, Trade and Tourism; the Ministry of Transport and Communications; the Ministry of Foreign Affairs; the national electric grid; the national power generating company; the Asian Development Bank; the World Bank and the American Chamber of Commerce. Deutsch briefed the representatives on the agreement signed in Dushanbe on the development of the "Central Asia South

Asia Regional Electricity Market" (see reftel A) and conversed with his interlocutors on topics relating to this energy initiative.

Government Supports Electricity Reforms and Exports

¶ 14. (C) Kurmanbek Ukolov, Chief of the President's Economic Policy Department, told Deutsch that President Bakiyev has endorsed a "government strategy and pricing policy" for the energy sector, but cautioned that the "rate of reform is dependent on our public." Ukolov welcomed investment in the energy sector, and added that privatization of regional distribution companies, thermal power stations and incomplete hydroelectric stations was possible. He noted upcoming talks with a World Bank delegation to review tariff policy and investment protection.

¶ 15. (C) Prime Minister Kulov's economic advisor Janybek Omorov expressed support for electricity sector reform and the AES proposal to add grid capacity linking Kyrgyzstan to Kazakhstan and Tajikistan. Omorov identified two goals for Kyrgyzstan: 1) cutting losses in the electricity sector and 2) developing the electricity export market through an improved investment environment.

The Politics of Electricity

¶ 16. (C) Parliament Vice Speaker Tairbek Sarpashev outlined the political undercurrents complicating reform of the Kyrgyz electricity sector. Sarpashev said parliamentarians in 2001 believed that international financial institutions would seize Kyrgyzstan's hydroelectric power stations if the country defaulted on its debt. This belief, Sarpashev

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remarked, politicized electricity and led to legislation placing the hydroelectric stations in "perpetual government ownership." He noted the existing laws only relate to existing stations, and added that the two hydroelectric stations under construction since the Soviet era might be offered to investors.

¶ 17. (C) Sarpashev, recalling opposition arguments in 2003 and 2004 equating the sale of energy sector assets to "selling your motherland," said the current government (the opposition in 2003-04) is unable to advocate the privatization of assets without sounding hypocritical. He added that government proposals must include more than reforms relating to electricity distribution companies. (Note: The exact content of government energy reforms is unclear, as parliamentary hearings scheduled for the government to outline its plans have been delayed amidst the current political turmoil. The wording of existing legislation also provides for different interpretations of the role of private investors in Kyrgyzstan's energy sector. End note.)

¶ 18. (C) Sarpashev outlined three areas where he believed the United States could help energy sector reform in Kyrgyzstan: 1) aiding in "legislation submission," 2) arranging a conference in Parliament on energy sector reform, and 3) helping Kyrgyzstan catch up with Tajikistan in attracting foreign investment.

Electricity Generation and Grid Operators on Board

¶ 19. (C) National Electric Grid JSC Director Salaydin Avazov expressed support for grid expansion plans, welcomed the involvement of AES and then delved into U.S. Trade and Development Agency (TDA) grants. In addition to seeking expedited action by TDA on approved feasibility studies, he lobbied for a third TDA-financed feasibility study to consider the building of a high voltage transmission line from the substation at Datka to Khujand in Tajikistan.

Avazov and his deputy described infrastructure ownership)
the national grid company owns the major lines, while local
distribution companies own lower voltage lines. The national
grid also delivers power to some large companies directly.
When pressed on how the grid would finance major
infrastructure investments, Avazov reasoned that investors
would accept electricity in return.

¶10. (C) Electric Power Plants JSC Director Saparbek Balkibekov praised the regional power plan agreed in Dushanbe, but cautioned that Tajikistan and Kyrgyzstan together did not have enough excess capacity in winter to meet Pakistan's proposed electricity demand. Balkibekov said Kyrgyzstan's electricity generating capacity is 3,660 MW, of which 2,900 MW is hydroelectric and the remainder thermal (using coal, natural gas and/or fuel oil.) The thermal plants, which service Bishkek and Osh, generate only 7% of the power supply, but generate more than 50% of the company's operating costs. Current infrastructure spending amounts to \$5 million annually, which ignores the work needed to complete two hydroelectric plants begun in the Soviet era. Balkibekov said he supports increased electricity tariffs, and opined that existing legislation needs to be modified to allow new, private power plants.

Mixing Water, Gas and Electricity

¶11. (C) Turatbek Junushaliyev, Deputy Minister of Industry, Trade and Tourism (with oversight of the energy sector), welcomed electricity sector developments, but also tied hydroelectric power generation, water policy and natural gas supplies together. While initially de-linking compensation for water stored for Uzbekistan from the increased price of natural gas from Uzbekistan, he later raised the possibility

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of activating all the hydroelectric turbines and thereby releasing more water than Uzbekistan can absorb. Uzbekistan, he reasoned, would be more willing to negotiate, but then added, "we don't support this approach, in general."

Transport Minister Raises Aviation Issues

¶12. (C) Minister of Transport and Communications Nurlan Sulaymanov, who is also chairman of the joint Kyrgyzstan-Tajikistan Commission, spoke positively of the regional power agreement reached in Dushanbe before turning to aviation issues. Lamenting the "obsolete" condition of Kyrgyz aircraft, Sulaymanov offered the prospect of a "joint aviation venture" with the United States utilizing Manas airport. Sulaymanov then engaged the Ambassador in a discussion of the Manas airport accident and the subsequent impact on presidential travel. He later touched on Kyrgyzstan's road network, noting that only 2,500-3,000 kilometers of the 20,000 kilometer network are in "good shape."

Comment

¶13. (C) Our interlocutors expressed support for regional electricity projects, and endorsed reforms for the sector. While the November 6 signing of a memorandum of understanding between AES and the Kyrgyz Prime Minister on the construction of transmission lines is promising (reftel B), political turmoil continues to distract Kyrgyz officials from long-term policy-making decisions. Even though political compromise was found and the demonstrations have stopped, energy sector reforms as envisioned by the government may become hostage to political agendas. While international financial institutions seem keen to proceed alongside the United States in strengthening Kyrgyzstan's energy sector, Kyrgyz officials must demonstrate their own commitment through reform and implementation of the AES memorandum to realize the financial

benefits of electricity exports. End comment.

YOVANOVITCH